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U.S. STUDIES PLAN TO LINK ARMS CUTS AND ATOM TESTING

REAGAN LETTER DRAFTED

Some State Dept. Aides Favor Reducing Nuclear Tests as Part of an Accord

By MICHAEL R. GORDON

Special to The New York Times

WASHINGTON, July 16 — The Reagan Administration in considering a new proposal that calls for simultaneously reducing the number of underground nuclear tests by the United States and Soviet Union and the number of strategic weapons on each side.

The idea of a link between reductions in strategic weapons and in testing is contained in a draft of a letter from President Reagan to Mikhail S. Gorbachev, the Soviet leader, and has been supported by State Department officials.

The Administration has never before suggested reducing the number of tests.

Debate Continues

Administration officials cautioned that there was still debate within the Administration over the idea.

According to the idea, the number of tests that each side could carry out each year would be tied to reductions in strategic arms. If both sides agreed to cut strategic weapons by 30 percent, for example, they might reduce the number of underground tests by a similar percentage.

But some officials said the fine points had not been worked out.

Some Weapons Excluded

Some critics of the proposal within the Government said there was no direct correlation between the number of weapons that each side has and the number of tests they need to conduct. They said, for example, that some nuclear tests, such as those carried out to develop tactical nuclear weapons, are conducted for weapons that would not be covered by a new strategic arms treaty.

But supporters of the idea said that the United States could reduce its testing without hurting its security and that the proposal could slow Soviet weapons development. They also said that the Soviet proposal for a ban on testing had increased public interest in the issue and that the proposal might be a way of addressing those concerns.

The Soviet Union has imposed a yearlong moratorium on its underground tests that is due to end on Aug. 6. On Tuesday, Mr. Gorbachev said the Soviet Union might extend its moratorium, depending on American positions on arms control issues.

White House Confirms Meeting

The White House today confirmed reports that American and Soviet experts would discuss verification issues on nuclear testing. Officials said they expected the meeting to take place later this month in Geneva.

In London, Foreign Minister Eduard A. Shevardnadze of the Soviet Union also said Soviet experts were engaged in "very serious, substantive preparations" for a second meeting between

whether Mrs. Thatcher had dropped her opposition to Mr. Gorbachev's peace initiatives. The key arms control issues are highly technical and have to

be negotiated by specialists, Mr. Shevardnadze said. "What is needed is not laymen's talk," he commented, "but real professional knowledge."

President Reagan and Mikhail S. Gorbachev. [Page A8.]

The White House said Mr. Shevardnadze, in his remarks in London, had misrepresented the purpose of the Geneva arms meeting.

Mr. Shevardnadze said the meeting would focus on efforts to negotiate a total test ban. American officials said that there were no preconditions for the meeting, and that it would deal with verification issues on testing.

Verification Discussion Expected

Officials said the United States expected the Soviet Union to discuss verification measures for a total test ban. But they added that American officials intended to discuss ways to improve the verification of two treaties from the 1970's that limit the size of nuclear explosions; those treaties have been signed but not ratified.

The Reagan Admininstration has said it will not ratify the treaties until verification is improved. The officials said the United States was not interested in resuming talks on a total test ban, which it insists is an objective for the distant future.

The White House also confirmed news reports that the United States had agreed to a Soviet suggestion to convene another arms control meeting later this month, when the Standing Consultative Commission begins a special session "on or about July 22." The commission was established by the 1972 anti-ballistic missile treaty.

Edward P. Djerejian, a White House spokesman, said the United States would be prepared to respond at the meeting to Soviet concerns about President Reagan's decision to repudiate the 1979 strategic arms limitation treaty.

He also said American representatives would go to the meeting with the expectation that the Soviet Union would address American concerns about purported Soviet arms-control violations.

Reagan Decision May Change

"Time remains for the Soviet Union to alter the situation which led the President to his May 27 decision," Mr. Djerejian said in a statement. "If the Soviet Union does, the President will take this into account."

The draft letter covers a broad range of arms issues, including strategic weapons and the 1972 antiballistic missile treaty.

Administration officials said there were major differences over how to respond to recent Soviet arms control

proposals, including the proposal to strengthen the antiballistic missile treaty.

The State Department has said it favors a political commitment to continue to abide by the treaty for a period of five years or so while reductions are carried out. But the Pentagon has said it opposes that idea.

Another issue is how to amend the American position on strategic arms. State Department officials have advocated that the Administration abandon its ban on long-range mobile missiles and, instead, set a limit on the number of warehads on such long-range missiles, including those with multiple warheads.

Liberal and conservative arms experts have criticized the mobile ban, which they say would prevent the United Staess for fielding a less vulnerable force.

Today the Committee on the Present Danger, a conservative group, issued a report on arms-control issues that sharply assailed the Administration's proposed ban on long-range mobile missiles. It said that "the most distressing aspect of the latest U.S. current arms-control proposal is the call for a ban" on such missiles.

WHY WASN'T $1 MILLION A YEAR ENOUGH?

A LOT MORE THAN GREED LED TO THE INSIDER-TRADING SCANDAL

Dennis B. Levine, who fell further at 33 than most of us will ever climb, is an enigma. A million dollars a year and $10 million in the bank weren't enough. Even when he knew federal investigators were closing in, he kept testing the limits.

And there are others like him, a dozen in all so far this summer. Sometimes it has seemed they were everywhere on Wall Street: young men of advantage busily turning opportunity into misfortune. There is Ilan K. Reich, 31, the brilliant young takeover lawyer who, sources say, never bothered to collect anything from the insider-trading scheme that ruined his career. There is Ira B. Sokolow, 32, who lived quietly in the suburbs with his schoolteacher wife and young daughter and collected $120,000 in cash for information he learned at the investment bank where he earned $400,000 a year. There is Marcel Katz, 23, the Lazard Frères & Co. junior analyst who told his father about one of Lazard's biggest deals.

RELENTLESS AMBITION. Beaming at us from their university yearbook pictures, they look as we do in our memories: fresh and quick, impatient for success. But they stole their firms' secrets and tried to turn that betrayal into stock market profits. How did so many go so wrong so fast? Why did they do it?

There are no definitive answers, and the insiders themselves aren't talking. Interviews with Wall Street dealmakers, academics, and psychologists, however, suggest a strong behavioral pattern. Partly the problem lies in the ambiguous mores and frenzied pace of the mergers and acquisitions business. And partly the problem lies in the psychological makeup of the individuals themselves.

It's simplistic to say the insiders were motivated by greed alone. The risks some of them took so far exceeded any possible gains that their actions seem irrational. And the claim that these were just a few rotten apples is naive.

To begin with, it is no accident that these scandals have hit the mergers and acquisitions specialists. M&A is the alchemy of the 1980s, transforming once-prosaic business deals into front-page news. Whether in arbitrage, investment banking, or corporate law, it is show business, complete with celebrities and eager understudies. It moves fast and pays off big. Risk is glorified. Ambition and drive are prerequisites.

Is this necessarily a blueprint for criminality? No. But psychologists say some of those attracted by the M&A glamour may have a predisposition to cut corners. Such people succeed in high-pressure jobs, the experts say, precisely because they have psychological problems that result in compulsive drives. They often become workaholics. In the business of dealmaking especially, says psychologist Martin Haydon of New York University, employers want their go-getters to be insatiable. "They pay them for it," he says.

Relentless ambition, the experts say, can be a device to satisfy a deep-seated craving for recognition. Nothing is more important than being seen as smarter, quicker, and more creative than the next guy. Even financial success becomes irrelevant. Money matters only as a scorecard, says psychiatrist Samuel C. Klagsbrun, medical director of Four Winds Hospital, a psychiatric care center in Katonah, N.Y. For a while, the legitimate victories satisfy the appetite for recognition. But then success itself revives the craving. After every deal, there is depression, says Klagsbrun. "The high is over, and they desperately want to reach for the next high."

To recapture the high, many move closer to the edge of acceptable behavior. A new and separate life begins. A banker who knew Sokolow remembers

WALL STREET: CLASS OF '86

IRA B. SOKOLOW, 32
A Wharton undergraduate with a Harvard MBA, he was one of the most promising of the young investment bankers in Shearson Lehman's M&A department. Remembered by another banker as "a sweet kid," Sokolow learned the dark side of Wall Street early. As a summer associate at Smith Barney in 1980, Sokolow met Dennis Levine, who, according to a source, said that the way to succeed on Wall Street was to dig out information and use it. "This is how you get ahead," the source says Levine explained. On July 1, Sokolow settled a civil suit in which the SEC charged that he got $120,000 for giving Levine more than a dozen "inside" tips.

ROBERT M. WILKIS, 37
Intellectual and conservative by nature, Wilkis was drawn to Wall Street because he thought work in international finance would let him see the world. By the time he resigned as a first vice-president at E. F. Hutton on June 7, he was disillusioned with the business. "He thinks of himself now," says one who knows him, "as somebody who never should have gotten involved in investment banking. It didn't have enough intellectual content." Wilkis told the SEC he made $3.3 million from illegal stock trades. He is cooperating with the government.

(TOP) NYT PICTURES; (BOTTOM) AP/WIDE WORLD giving him an expensive cigar to celebrate a deal. Sokolow seemed overwhelmed, saying he would never have bought such a gift for himself. Today the banker wonders how Sokolow could summon that apparently genuine emotion when, as only Sokolow then knew, he had enough money to buy a cigar store.

LEAVING TRACKS. Psychologist Haydon says such incidents pose few problems for those involved. They keep their secret lives so separate from their normal activities that for a time the two do not intersect. One expert says the behavior is akin to having an affair on the road. It has nothing to do with life at home. Or so it seems.

This compartmentalized life, too, eventually fails to satisfy. Secret triumphs bring no recognition. Thus begins a pattern that often leads to discovery. In Levine's case, it may have been a need to show the world how ingenious he had been that led him to new excesses. His stock trades accelerated after he had been questioned by the Securities & Exchange Commission in 1984. And even when he knew the SEC was closing in, he wanted to continue trading. If recognition was what Levine subconsciously wanted, he got his way. He will be remembered.

Even those who enter Wall Street free of psychological problems may be subject to unusual pressures. Experts in industrial psychology say workers often expose themselves to a certain amount of danger because it is stimulating. White-collar crime such as computer "hacking," many authorities believe, is simply an extension of that kind of behavior. Typically, says psychologist Lawrence R. Zeitlin of the City University of New York, a few employees seek to add excitement to their jobs so they can use intellectual potential that may be untapped in standard chores. Insider Robert M. Wilkis is now said to feel investment banking "didn't have enough intellectual content."

Whether the predisposition toward rule-breaking has its roots in pathology or job stress, environment plays a major role. Studies have shown, for example, that most people say they don't commit crimes at work because they believe they will get caught. The M&A environment obviously hasn't succeeded in conveying that kind of message. In recent years there have been a score of insider-trading cases involving leaks from top law firms and financial institutions.

Youth has been a factor in several major business scandals, says M. David Ermann of the University of Delaware, an authority on corporate crime. Young professionals, he says, "know that the rules in business are different than in everyday life, but they don't know exactly how they differ. If you give them too much play too soon, they won't adapt." The result, he says, is that they may develop their own set of rules based on misperceptions of accepted behavior. While Dennis Levine was assembling one of the largest insider-trading rings ever uncovered, one source says that Levine explained his understanding of the rules of insider trading: "Everybody does it."

The takeover business that has bred the current scandal is young, too. Sociologists say institutions on their way to maturity have the problems of anyone growing up. Control can break down when there is rapid change. Ilan Reich's law firm, takeover powerhouse Wachtell, Lipton, Rosen & Katz, is only 20 years old. Drexel Burnham Lambert Inc. thrives by financing hostile takeovers that little more than a decade ago were scorned by most investment houses as ungentlemanly.

The M&A world concerns itself with money 24 hours a day. "The premium is $15." "The fee was $6 million." "It's a $2 billion deal." If you are 27, or 31, or 33, those numbers can be dizzying. Perhaps money simply stops having any meaning at all. "One builds a climate through the salaries and the size of the deals so that money and the way it changes hands doesn't seem as important in-house as it does on the outside," says William R. Dill, president of Babson College in Wellesley, Mass., and a former dean of NYU's business school.

MIXED SIGNALS. If in that world of youth and big money, there is confusion about the ethics of insider trading, there are plenty of reasons for it. Insider trading is the archetypal white-collar crime. The profit can be huge, and it's hard to find a victim. There are even respected critics who argue that insider trading should be legal. That ethical ambiguity is critical, says Gilbert Geis, an authority on white-collar crime at the University of California at Irvine. "The one thing that is key in white-collar crime," says Geis, "is the ability of the criminals to say to themselves that they didn't do anything wrong. They see themselves as respectable people."

Wall Street institutions, meanwhile, send out decidedly mixed signals on the respectability of insider trading. All of them have strict rules forbidding information abuse. But do they do as much as they might to enforce them? True, the firms regularly tighten procedures and issue reminders about behavior. But in many cases, clerks and messengers have had easy access to valuable and coveted secrets.

Young M&A professionals must try to make sense of the ambiguous messages

ILAN K. REICH, 31

His mind is so sharp that sometimes Reich was a problem at Wachtell, Lipton, Rosen & Katz, one of the top takeover law firms in the U. S. He could be arrogant. "It was a tendency to be short with people," says one M&A specialist. Until he became a partner in 1984, sources say, he would sometimes tell Levine about the plans of Wachtell Lipton's takeover clients. In a peculiar twist, Levine is said to be telling investigators that Reich never got a penny for his information. Reich resigned his $450,000-a-year position on July 14 after Wachtell Lipton received a subpoena from the SEC. There are no formal charges against him.

DENNIS B. LEVINE, 33

A colleague remembers that Levine was "a bubbly, friendly, talkative kind of guy." But that was on the surface. Levine could be calculating and manipulative. He had, one source claims, a Svengali-like effect on some of the young men who fed him illegal tips. "Everybody does it," the source says Levine told a young investment banker. Levine's most perplexing trait, however, was that the greater the risk, the more willing he seemed to be to take it. On June 5, Levine pleaded guilty to four felony charges. He is now telling his story to government investigators.

OTTOM: AP/WIDE WORLD

they get about insider trading. While the insiders of this summer's scandals were figuring out how to fit in, there were many puzzling incidents. They saw editorial writers deriding the SEC's insider-trading enforcement efforts as threatening to the free flow of information. They saw Paul Thayer, a former corporate chairman and Deputy Defense Secretary, caught in a blatant insider scheme. And they saw the man who was the most vocal insider-trading prosecutor ever, John M. Fedders, driven out of office in a scandal that suggested a fundamental hypocrisy. The chief financial enforcement officer in the U.S. had a different standard when it came to abiding by the law himself. He beat his wife.

SCANT REMORSE. How seriously, in short, were these young professionals to take the trading guidelines? In a search for the answer, they may have had to determine what behavior to imitate. For years criminologists have held that antisocial behavior is learned from peers. Today, say some experts, there has been a change. The achievers of the 1980s define themselves so completely in terms of their jobs, says Purdue University sociologist Richard L. Hogan, that they begin to imitate the behavior not of their peers but of the companies they work for. "They come to view themselves not just as corporate actors," he says, "but as corporations themselves."

That is a chilling notion. However well meaning their managements may be, corporations do not have consciences: They exist to profit—and nowhere more aggressively than on Wall Street. Adopting a corporate character, then, becomes especially dangerous for the young stars of M&A. Price, as any good M&A man will tell you, is what matters in the end. When the M&A kids equate themselves with the law firms or investment banks they work for, morality is irrelevant. They deal in strategic advantage and risk evaluation. They exist to fight.

Levine and Wilkis, the insiders who profited most, actually conducted their schemes through corporations they created. In them, perhaps, the metamorphosis was complete. Despite statements to the contrary, the experts say there isn't likely to be much remorse. "When I've seen people like this in my office," says Klagsbrun, "I have a great sense of sadness. But that feeling is only on one side of the room. For them, this is just one of the deals that didn't work out."

For the rest of us, it is an unsolved puzzle. But the search for an answer is essential if the scandal of 1986 is to mean more than ruin for a handful of young men who wouldn't be satisfied—even with a fast trip to the top.

By William B. Glaberson in New York

BUSINESS WEEK/HARRIS POLL: INSIDER TRADING ISN'T A SCANDAL

The insider-trading scandal on Wall Street hasn't upset Americans. Indeed, a majority would buy stock based on an insider's tip—and more than a third of those who would not said they'd be afraid the tip was wrong. As for ethical standards, Wall Streeters do well, coming in ahead of politicians and lawyers and roughly tied with executives, doctors—and reporters.

Q A number of people in their 20s and 30s who work on Wall Street have been accused of insider trading—illegally trading stocks on information they knew, but the general public and other stockholders did not. Why do you think they engaged in such illegal acts?

A

Pure greed	56%
They were criminal by nature	6%
Many others on Wall Street were doing it	21%
They made too much money at an early age	11%
None or not sure	6%

Q Since everyone implicated so far has been relatively young, some people have argued that this indicates that the younger generation, especially Yuppies, has lower moral standards than their elders. Do you think that's true, or don't you see much difference?

A

Is true	44%
Not much difference	50%
Not sure	6%

Q How common do you think it is for people on Wall Street to engage in insider trading?

A

Very or somewhat common	63%
Not common	26%
Not sure	11%

Q Some people argue that insider trading shouldn't be illegal. They say that nobody gets hurt, since no one loses money, just that some people make more money than others. Do you think that insider trading should be illegal, or is it just a case of people making money because they know more than other people?

A

Should be illegal	52%
Just that they know more	41%
Not sure	7%

Q Suppose someone got a tip from a friend that the company he or she works for was going to be purchased for a lot more money than its current stock price. Would most people, if they had the money, buy stock in that company or not?

A

Would buy	82%
Would not buy	14%
Not sure	4%

Q Now, suppose you got a tip from a friend that the company he or she works for was going to be purchased for a lot more money than its current stock price. If you had some spare cash, would you buy stock in that company or not?

A

Would buy	53%
Would not buy	42%
Not sure	5%

Q You say you would not buy stock based on such a tip. If you had to pick one reason, which would it be?

A

It would be illegal	17%
The government might find out	3%
The tip might not be any good	37%
It's just plain wrong to do it	37%
Not sure	6%

Q Have the stories about insider trading changed your opinion about the ethics of people who work on Wall Street for the worse, for the better, or haven't they made much difference?

A

For the worse	11%
For the better	4%
Not made much difference	80%
Not sure	5%

Q Finally, I'd like to ask you to compare the ethical standards of people who work on Wall Street with those in other lines of work. If you had to choose, which one of these groups do you think has the lowest ethical standards?

A

Those who work on Wall Street	7%
Politicians	43%
Doctors	5%
Reporters	10%
Lawyers	16%
Corporate executives	8%
None and not sure	11%

Edited by Stuart Jackson

Survey of 1,248 adults conducted Aug. 4-11 by Louis Harris & Associates for BUSINESS WEEK. Overall results should be accurate to within three percentage points either way.

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